

JEFFERSON, URIAN, DOANE & STERNER, P.A.

INDIAN RIVER SCHOOL DISTRICT

INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

JUNE 30, 2008

FIELDWORK END DATE: OCTOBER 10, 2008

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Independent Accountant's Report on Applying Agreed-Upon Procedures

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Indian River School District
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The Honorable Valerie A. Woodruff
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We have performed the procedures enumerated below, which were agreed to by Indian River School District; the Office of Auditor of Accounts; and the State of Delaware Department of Education, solely to assist the specified parties in evaluating the School District's compliance with criteria from the State of Delaware Capital Asset Policy Manual, the State of Delaware Department of Education School Construction Technical Assistance Manual, the Delaware Code, and the State of Delaware Budget and Accounting Policy Manual relative to the school construction projects administered by the School District for the year ended June 30, 2008. Indian River School District's management is responsible for compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* (2007) issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. Determine if the School District's policies and procedures for identifying, tracking, and recording capital assets are adequate.

There were no findings upon completion of Indian River School District's construction program and project checklists.

2. Determine whether the School District's construction project records and files (current and prior fiscal years) are accurate.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

3. Determine if expenditures are accurately stated and are made in accordance with the State Capital Asset Policy Manual and the intent of the project scope mandated by the General Assembly, the Department of Education, and the Local Board of Education.

There were no findings upon completion of Indian River School District's construction program and project checklists.

4. Determine whether the School District's construction project records and files include only active construction projects as of June 30, 2008. Ensure that completed projects have been appropriately closed out of construction and added to the State Fixed Asset system.

Upon completion of Indian River School District's construction program and project checklists, our procedures resulted in finding(s), see *Appendix A*.

5. Prepare the School District's Schedule of Construction Projects for Fiscal Year 2008.

See *Appendix C*.

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Indian River School District management and Board Members, the Office of Auditor of Accounts, and the State of Delaware Department of Education, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited. This report, as required by statute, was provided to the Office of the Governor, Office of the Controller General, Office of the Attorney General, Office of Management and Budget, Department of Finance, the State Treasurer's Office, and the Office of Auditor of Accounts.

Jefferson, Urian, Doane & Sterner, P.A.

Georgetown, Delaware
October 10, 2008

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Procedure Agreed Upon #2

Finding 08-01:

During completion of Indian River School District's construction program and project checklist for Phillip Showell Elementary renovations, it was noted that the approval of construction plans, specifications, and cost estimates from the Division of Facilities Management were not timely obtained prior to bid advertisements as required by 29 Del. C. §7419(a). This was an oversight by School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.

Recommendation:

Indian River School District should establish procedures to ensure that proper approvals from the Division of Facilities Management are obtained timely in accordance with the guidelines established by the State of Delaware.

School District's Response:

"The Indian River School District will adhere with the policies and procedures promulgated within the statutory regulations, policy manuals and procedural manuals."

Finding 08-02:

During completion of Indian River School District's construction program and project checklist for Georgetown Middle School renovations, it was noted that unexpended project funds subject to reversion totaled \$ 3,878 in appropriation 7522, of which \$ 2,327 (60%) is the State share and \$ 1,551 (40%) is the local share. According to 29 Del. Code §7515, any sum of money that has been appropriated to a school district by the State of Delaware under any school construction bond authorization act which remains unexpended one year after pupil occupancy shall be reverted back to the State of Delaware. The local share appropriated under the same bond authorization act shall be deposited into a debt service account of the school district, according to 29 Del. Code §7516. This was an oversight by School District personnel. Failure to comply with State of Delaware provisions, including Delaware Code, could result in fraud, errors, and irregularities.

Recommendation:

Indian River School District should revert \$ 2,327 to the State of Delaware. Furthermore, Indian River School District should deposit \$ 1,551 into the District's debt service account.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding 08-02:

School District's Response:

“Indian River School District has submitted a request to the Delaware Department of Education and the Office of Management & Budget seeking clarification based upon the submission of numerous bond fund continuation request for each fiscal period as well as identifying that local current expense funding has been utilized to incur completion costs that exceeded the bond funding allocation. The recovery of local current expenditures is most preferred based upon the fact that the renovation projects exceeded bond funding by an estimated \$ 895,000. Therefore, at this time, Indian River School District does not concur with the recommendation.”

Procedure Agreed Upon #4

Finding 08-03:

During completion of Indian River School District's construction program and project checklist for Education Complex renovations, it was noted that capital expenditures in Appropriation 7617 were not properly entered into the State's Fixed Asset Accounting System (FAAS) as required by Capital Asset Policy Manual, Section IV.B.3. The School District did not capitalize the capital expenditures from Appropriation 7617 incurred prior to fiscal year 2008. This was an oversight by School District personnel. Improper recording of capital expenditures results in errors in financial reporting.

Recommendation:

Indian River School District should determine the adjustment needed to the State's FAAS and consult Division of Accounting to determine whether further action is needed.

School District's Response:

“Indian River School District has submitted a request to the Delaware Department of Finance seeking clarification based upon the entry date into the State's Fixed Asset Accounting System as July 1, 2008.”

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding 08-04:

During completion of Indian River School District's construction program and project checklist for Education Complex renovations, Lord Baltimore Elementary renovations, East Millsboro Elementary renovations, Georgetown Middle School renovations, Millsboro Middle School renovations, Selbyville Middle School roof replacement and Long Neck Elementary School roof replacement, it was noted that these projects were not properly entered into the State's Fixed Asset Accounting System (FAAS) as required by Capital Asset Policy Manual, Section IV.B.3. The projects were substantially complete by June 30, 2008. However, the School District recorded the in-service date of these projects as July 2008 in FAAS, which is not consistent with their removal from June 30, 2008 Construction-Work-In-Progress. This was an oversight by School District personnel. Improper recording of capital expenditures results in errors in financial reporting.

Recommendation:

Indian River School District should determine the adjustment needed to the State's FAAS and consult Division of Accounting to determine whether further action is needed. Furthermore, the School District should properly monitor and review the reporting of capital assets to ensure compliance with the State of Delaware Capital Asset Policy Manual.

School District's Response:

"Indian River School District has submitted a request to the Delaware Department of Finance seeking clarification based upon the entry date into the State's Fixed Asset Accounting System as July 1, 2008."

Finding 08-05:

During completion of Indian River School District's construction program and project checklist for Phillip Showell renovations, Selbyville Middle School roof replacement and North Georgetown Elementary roof replacement, it was noted that these projects were not properly entered into the State's Fixed Asset Accounting System as required by Capital Asset Policy Manual, Section IV.B.3. One project was substantially complete as of June 30, 2008, but two of these projects were not substantially complete as of June 30, 2008. However, during fiscal year 2008, School District personnel capitalized the projects using an in-service date of June 2007. This was an oversight by School District personnel. Improper recording of capital expenditures results in errors in financial reporting.

Recommendation:

Indian River School District should determine the adjustments needed to the State's FAAS and consult Division of Accounting to determine whether further action is needed. Furthermore, the School District should properly monitor and review the reporting of capital assets to ensure compliance with the State of Delaware Capital Asset Policy Manual.

SCHEDULE OF FINDINGS & RECOMMENDATIONS

APPENDIX A

Finding 08-05:

School District's Response:

“Indian River School District has submitted a request to the Delaware Department of Finance seeking clarification based upon the entry date into the State’s Fixed Asset Accounting System as July 1, 2008.”

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

The following schedule summarized the prior year findings and the status of the prior year findings.

Prior Year Finding	Recommendation	Status of Prior Year Finding
05-04 - During completion of Indian River School District's construction program and project checklists for Phillip Showell Elementary renovations, it was noted that the School District failed to submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C. §507(b).	Indian River School District should submit the archival-quality copies to Delaware Public Archives and establish procedures to ensure the copies are submitted upon completion of all projects.	Implemented.
07-01 - During completion of Indian River School District's construction program and project checklists, the School District did not have written policies and procedures in accordance with the State of Delaware's Fixed Asset Accounting Policy Manual II.B. and II.C. The Manual requires each State organization to establish written procedures and controls necessary to implement and monitor prescribed fixed asset accounting and reporting policies, guidelines, and standards. School District personnel were unaware of this requirement. Indian River School District could potentially be exposed to fraud,	Indian River School District should establish written procedures to ensure that the State's fixed assets are properly monitored, identified, and recorded.	Implemented.

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Prior Year Finding	Recommendation	Status of Prior Year Finding
07-01 - misuse of appropriated funds, and improper capitalization of construction work-in-progress and completed projects when adequate policies and procedures are not in place.		
07-02 - During completion of Indian River School District's construction program and project checklist for Education Complex renovations, it was noted that the approval of construction plans, specifications, and cost estimates from the Division of Facilities Management were not obtained prior to bid advertisements as required by 29 Del. C. §7419(a). This was an oversight by School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.	Indian River School District should establish procedures to ensure that proper approvals from the Division of Facilities Management are obtained in accordance with the guidelines established by the State of Delaware.	Not Implemented. See Finding 08-01. School District's Response 06/30/08: <i>"Indian River School District will establish procedures to ensure that proper approvals from the Division of Facilities Management are obtained in accordance with the guidelines established by the State of Delaware."</i>
07-03 - During completion of Indian River School District's construction program and project checklists for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations, it was noted that	Indian River School District should submit the archival-quality copies for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations to Delaware Public Archives as soon as possible.	Implemented.

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Prior Year Finding	Recommendation	Status of Prior Year Finding
07-03 - the School District failed to submit the archival-quality copies of architectural and/or engineering drawings to Delaware Public Archives for preservation and safekeeping as required by 29 Del. C. §507(b). This was due to an oversight by School District personnel. Noncompliance with provisions of the Delaware Code could potentially cause a delay in receiving future State funding.		
07-04 - During completion of Indian River School District's construction program and project checklists for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations, it was noted that the School District had not submitted a copy of the electronic AutoCAD files to Department of Education within thirty calendar days after the completion of major renovations as required by the School Construction Technical Assistance Manual, § 2.0, Paragraph 5.4. This was due to an oversight by the School District personnel.	Indian River School District should submit the AutoCAD files for Lord Baltimore Elementary renovations, East Millsboro Elementary renovations and Georgetown Middle School renovations projects to the Department of Education as soon as possible.	Implemented.

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Prior Year Finding	Recommendation	Status of Prior Year Finding
07-04 - Noncompliance with State of Delaware provisions, including the School Construction, could potentially cause a delay in receiving future State funding.		
07-05 - During completion of Indian River School District's construction program and project checklists for Lord Baltimore Elementary renovations and Georgetown Middle School renovations, it was noted that the School District's project construction files did not contain certain information required by the State of Delaware Budget and Accounting Policy Manual XII.D.3.r. School District personnel did not maintain certificates rendered by the Fire Marshall's Office, plumbing inspector and/or electrical inspector. This was an oversight by School District personnel for both projects. Failure to comply with State of Delaware provisions, including Budget and Accounting Policy Manual, could result in fraud, errors, and irregularities.	Indian River School District should obtain and properly file the certificates rendered by the Fire Marshall's Office, plumbing inspector, and/or electrical inspector for Lord Baltimore Elementary renovations and Georgetown Middle School renovations projects.	Implemented.

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Prior Year Finding	Recommendation	Status of Prior Year Finding
<p>07-06 - During completion of Indian River School District's construction program and project checklist for Lord Baltimore Elementary renovations, it was noted that the School District's project construction files did not contain certain information required by the State of Delaware Budget and Accounting Policy Manual XII.D.6. School District personnel did not maintain copies of special engineering or cost analysis reports. This was an oversight by School District personnel. Failure to comply with State of Delaware provisions, including Budget and Accounting Policy Manual, could result in fraud, errors and irregularities.</p>	<p>Indian River School District should obtain and properly file copies of special engineering or cost analysis reports from all contractors for Lord Baltimore Elementary renovations.</p>	<p>Implemented.</p>
<p>07-07 - During completion of Indian River School District's construction program, it was noted that the School District did not properly record Construction Work In Progress (CWIP) for Fund 300 in the State's Fixed Asset Accounting system as required by the Delaware Fixed Asset Accounting Policy Manual, Section IV.B.3. As a result, the School District's 2007 GAAP package value of CWIP was misstated. The School District had believed they complied with the State's policies on capitalization.</p>	<p>Indian River School District's 2008 GAAP package should reflect the corrections proposed by the Division of Accounting in the "Adjustment to Beginning Balance" column on the "Summary of Construction Work in Progress (CWIP)."</p>	<p>Implemented.</p>

SCHEDULE OF PRIOR YEAR FINDINGS

APPENDIX B

Status Key:

Implemented

The concern has been addressed by implementing the original or an alternate corrective action.

Not Implemented

The corrective action has not been initiated.

Partially Implemented

The corrective action has been initiated but is not complete and the auditor has reason to believe management fully intends to address the concern.

SCHEDULE OF CONSTRUCTION PROJECTS

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/08
New High School - North	2001	\$ 1,576,700	\$ -	\$ 1,576,700	\$ -	\$ 1,576,700	\$ 1,576,700	\$ -
	2002	13,947,700	-	13,947,700	-	13,947,700	13,947,700	-
	2003	11,623,200	-	11,623,200	-	11,623,200	11,623,200	-
	2004	4,133,300	-	4,133,300	-	4,133,300	4,133,300	-
	2006	1,500,000	-	1,500,000	5,250	1,494,750	1,500,000	-
Frankford Elementary Renovations	2003	1,600,400	-	1,600,400	(273,846)	475,363	201,517	1,398,883
	2005	557,700	-	557,700	-	1,673	1,673	556,027
	2006	836,300	-	836,300	-	2,509	2,509	833,791
East Millsboro Elementary Renovations	2003	1,694,500	-	1,694,500	-	1,694,500	1,694,500	-
	2005	915,200	-	915,200	-	915,200	915,200	-
	2006	1,372,800	-	1,372,800	31,135	1,341,665	1,372,800	-
Education Complex Renovations	2004	445,800	-	445,800	-	445,800	445,800	-
	2006	2,644,200	-	2,644,200	1,811,342	405,232	2,216,574	427,626
	2007	10,319,100	-	10,319,100	6,384,498	3,088	6,387,586	3,931,514
Lord Baltimore Elementary Renovations	2004	803,800	-	803,800	-	803,800	803,800	-
	2005	6,584,500	-	6,584,500	64,162	6,520,338	6,584,500	-
	2006	1,669,534	-	1,669,534	-	1,669,534	1,669,534	-

SCHEDULE OF CONSTRUCTION PROJECTS - CONTINUED

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/08
John M. Clayton Renovations	2004	\$ 1,435,800	\$ -	\$ 1,435,800	\$ -	\$ 35,486	\$ 35,486	\$ 1,400,314
	2005	1,465,500	-	1,465,500	-	4,397	4,397	1,461,103
	2006	5,862,100	-	5,862,100	-	17,586	17,586	5,844,514
Georgetown Middle School Renovations	2004	677,800	-	677,800	-	677,800	677,800	-
	2005	12,572,000	-	12,572,000	266,057	12,302,065	12,568,122	3,878
Millsboro Middle School Renovations	2004	564,800	-	564,800	-	564,800	564,800	-
	2005	542,200	-	542,200	55,819	472,663	528,482	13,718
	2006	2,235,900	-	2,235,900	19,537	2,216,363	2,235,900	-
	2007	5,965,600	-	5,965,600	1,741,245	4,159,651	5,900,896	64,704
Phillip Showell Elementary Renovations	2006	1,394,000	-	1,394,000	50,956	69,472	120,428	1,273,572
North Georgetown Elementary Roof Replacement	2007	1,153,400	-	1,153,400	56,178	1,313	57,491	1,095,909
Selbyville Middle School Roof Replacement	2007	1,812,400	-	1,812,400	981,896	65,921	1,047,817	764,583

SCHEDULE OF CONSTRUCTION PROJECTS - CONTINUED

APPENDIX C

Project Name	Fiscal Year	Original Funding Amount	De-auth Funding Amount	Total Project Funding to Date	Expended Current FY	Expended Prior FY's	Total Project Expended to Date	Total Unspent as of 06/30/08
Long Neck Elementary School Roof Replacement	2007	\$ 1,153,400	\$ -	\$ 1,153,400	\$ 645,862	\$ 42,286	\$ 688,148	\$ 465,252
Totals		\$ 99,059,634	\$ -	\$ 99,059,634	\$ 11,840,091	\$ 67,684,155	\$ 79,524,246	\$ 19,535,388

Note 1 - Total current year expenditures for Frankford Elementary Renovations project is net of expenditure corrections totaling \$ 362,872 for prior year miscoded costs relating to Millsboro Middle School Renovations project. Current year expenditures would be \$ 89,026 for Frankford Elementary Renovations project, without the expenditure correction.

Note 2 - Total unspent funds for Georgetown Middle School includes the questioned balance of \$ 3,878 noted in Finding 08-02.

DISTRIBUTION OF REPORT

Copies of Indian River School District's Agreed-upon Procedures Attestation Engagement will be distributed by the Office of the Auditor of Accounts to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware
The Honorable Richard S. Cordrey, Secretary, Department of Finance
Mr. Michael S. Jackson, Acting Director, Office of Management and Budget
The Honorable Valerie A. Woodruff, Secretary, Department of Education
Ms. Trisha Neely, Director, Division of Accounting
Mr. R. Thomas Wagner, State Auditor, Office of the Auditor of Accounts

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of Controller General

Other Elective Offices

The Honorable Joseph Biden, III, Attorney General, Office of the Attorney General
The Honorable Jack Markell, Treasurer, State Treasurer's Office

Other

Ms. Dorcell S. Spence, Associate Secretary - Finance and Administrative Services Branch, Department of Education
Dr. Susan S. Bunting, Superintendent, Indian River School District